

## State Investment Commission

November 24, 2015

1:00 p.m. ~ Room 182 ~ Capitol Annex  
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on November 24, 2015 at 1:00 p.m. in Room 182 of the Capitol Annex by Todd Hollenbach, Kentucky State Treasurer. Other members present were W. Fred Brashear, II, President & CEO, Hyden Citizens Bank, Hyden, Kentucky; William Fallon, President & CEO, The Bankers’ Bank of Kentucky, Frankfort, Kentucky; and Will Adams, proxy for Governor Beshear.

Office of Financial Management (“OFM”) Staff Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission; Steve Jones, Deputy Executive Director; Sandy Williams, Deputy Executive Director; Brian Caldwell, Hannah Hogston, Kim Bechtel, Jonathan Eakin, Dwight Price, Bethany Couch and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; and Katherine Halloran, Legislative Research Commission.

Treasurer Hollenbach verified that a quorum was present and that the press had been notified of the meeting.

Treasurer Hollenbach called for a motion to approve the minutes from the September 24, 2015, meeting. A motion was made by Mr. Fred Brashear and seconded by Mr. Bill Fallon to approve the minutes as written. Motion **CARRIED**.

**Trading Limits** – Steve Jones announced that Dwight Price had returned to work for OFM after working elsewhere for a couple of years. The proposed trading limit request to the Committee was to add Dwight Price and Kim Bechtel as Senior Portfolio Managers. The request included no change to the limits, maintain Steve Jones and Brian Caldwell at the Senior Portfolio Manager level, and maintain Hannah Hogston at the Money Market Trader level. Treasurer Hollenbach called for a motion to approve the proposed trading limits. A motion was made by Mr. Bill Fallon and seconded by Mr. Fred Brashear. Motion **CARRIED**.

**Update on Compliance Reporting** – Jonathan Eakin reported that since the last SIC meeting, there were three compliance alerts triggered and seven compliance rule changes. On October 29, 2015, three compliance rules were triggered for Rule IDs: JABS, JCORP, and JMBS. A purchase by Kim Bechtel for \$50MM for a security caused the alerts. This was a normal Treasury trade and should not have triggered an alert. The rules were incorrectly entered in Bloomberg. The next day of October 30, Steve Jones corrected those Rule IDs in Bloomberg. On November 16, Steve Jones removed Rule IDs: MAX25, ABS and MMKTSEC in Bloomberg. Bloomberg was not able to calculate the correct percentages for these securities. New reports have been created in the OFM nightly process to calculate the correct percentages. These reports are reviewed daily to ensure proper allocation in the pools. Also on November 16, Steve Jones edited Rule ID LIMITMAT to change the maturity limit days from 397 to 365 in the Limited Term pool. All rules are now up-to-date. All changes were reflected in the Compliance Rule Change Log.

**Update on Cash Management Alternatives** – Mr. Jones stated that staff has started to look at software to resolve issues reported at the last meeting regarding State Street, collateral, and ticketing. Dwight Price will be the lead in this project. The bilateral repo is occurring monthly with Invesco and there is approximately \$200 million in place with them. There are contracts in place to do bilateral repo with two organizations that are willing to process overnight transactions. A new process has begun looking at OFM's cash projection to run the portfolio with less liquidity in order to generate higher earnings.

**Update on Investment Manual** – Mr. Jones reported that the Investment Manual needed to be updated since new regulations came into effect in September 2015. The following updates have been made: a) all policies were reviewed and any that were found to be in conflict with the new regulations were updated so they would be in compliance, b) the existing intermediate pool information statement was removed and replaced with the limited pool information statement and then changes were made to the limited pool information statement to reflect the differences between the two pools, and c) language was built into the information statements of both pools stating the pools needed to be run on a total return basis. A red-lined copy would be sent electronically to all board members after the meeting. Mr. Jones planned for the Investment Manual to be presented to the Commission in March for approval.

**Bridges Pool** – Mr. Jones reported that the Downtown Project was ahead of schedule and under budget. The treasuries looked like they were going to match up with the cash flow projections. Mr. Jones reminded the Commission that the Bridges Pool is a traditional buy-and-hold portfolio. At the inception of the project a series of treasuries were bought that matched up with the expected cash flows and any excess cash is rolled into the government money market fund, which results in maintaining no market risk.

**Intermediate Pool Performance** – Brian Caldwell directed the Commission members to the Intermediate Term Pool report as of October 31, 2015. The Pool market value stood just under \$2.5 billion. The Yield to Worst was 0.60% which was slightly under the benchmark. Quality remained high at Aaa. Duration stood at 1-year and continued to be short of the benchmark as a defensive position for anticipated higher rates at some point in the future. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio is diversified across the different sectors of the market as of October 31, 2015. The allocations were basically the same as last quarter's report with the only meaningful difference being Cash at 26%. Mr. Caldwell continued with the Portfolio Performance page, which showed the performance versus the Benchmark as of October 31, 2015. The month of August was basically flat but the Portfolio outperformed the Benchmark by 4 basis points as of October 31. The Portfolio has produced positive returns and close to the Benchmark for all other time periods since July 1995.

**Limited Term Pool Performance** – Kim Bechtel presented the monthly performance of the Limited Term Pool compared to the Local Government Investment Pool benchmark as of October 31, 2015. The first page was the monthly performance graph. She noted that staff was waiting on the federal government's decision on rates and hoping that will help with the Pool's performance. Mr. Jones noted that at the end of September the cash balances were built up due to the threat of government shutdown and the anticipation of a rate change which did not occur. The extra cash holdings were reflected in the performance. The second page listed all the securities held in the Pool as of October 31, 2015. The next page showed a breakdown of the Pool by credit rating and sector distributions. The next page provided detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel noted that the daily and weekly liquidity was up due to the fact that more

cash is being held. The Net Asset Value graph was steady as it should be. The largest daily withdrawal as of November 16, 2015 was by the University of Kentucky Hospital on January 20, 2015. The largest weekly withdrawals were the same as the largest daily withdrawals. The largest individual account in the portfolio was the Employee Self-Insurance Fund. The daily liquidity requirement as set forth by the Commission is 15% and the weekly liquidity requirement is 30%. Staff recommended maintaining the current liquidity requirements of the Pool requiring no action from the Commission. The Commission took no action. Mr. Jones added that the reports for this Pool were driven by the 2a-7 rules of Money Market Mutual Funds and were required quarterly as referenced in the Kentucky Administrative Regulations. Since the SEC rule was removed from the Regulations in September 2015, the reports were no longer required. Mr. Jones stated that the information was important and would continue to be reported to the Commission, if there was no objection.

**Country Bank** – Ms. Kim Bechtel stated there was an improvement on the Bank of Columbia's non-performing loans to capital ratio. As of November 13, 2015, the ratio was at 24% which was within the required parameter of less than 25%. She said that it will be checked again after December to make sure their performance stays within the parameters but she expects them to drop off this report by the next meeting. The Bank of Jamestown and Farmers Deposit Bank's loans to deposits ratios are below the requirement of being greater than 70%. Ms. Bechtel reminded the Commission that all of the banks are well collateralized and there was no risk to the Commonwealth. The Commission took no action.

**Credit Considerations** – Ms. Hannah Hogston stated that since the last meeting no names had been added or removed from the Corporate Credit List Approved for Purchase as of November 24, 2015. There were 28 non-financial companies and 27 financial companies for a total of 55 companies to be approved by the Commission. Ms. Hogston also presented the list for Securities Lending Agent Approved Counterparties as of November 24, 2015. She explained that because of the regulation changes made in September, staff is evaluating repo counterparties that do business with the Commonwealth and evaluating who the securities lending agents do repos with. In order to limit the Commonwealth's exposure, the securities lending agent Deutsche Bank Securities Inc. is not allowed to do repos with the following: BMO Capital Markets Corp., Bank of Nova Scotia, BNP Paribas Prime Brokerage, Inc., BNP Paribas Securities Corp., and RBC Capital Markets LLC. The Commonwealth's depository bank, JP Morgan Securities LLC, is also not approved as a repo counterparty. Treasurer Hollenbach called for a motion to approve the Corporate Credit lists. Mr. Bill Fallon made a motion which was seconded by Mr. Fred Brashear. Motion **CARRIED**.

**Other Business** – Mr. Jones expressed appreciation to Treasurer Hollenbach for his interest and support he has given during the last eight years. Treasurer Hollenbach remarked that OFM is a very professional group to work with and believed many good things were accomplished. He trusted OFM implicitly and hoped the new appointees to the board would do the same.

Mr. Jones stated that another broker approached him with questions regarding the new municipal advisor rule. The issue needed no action at this time, but he thinks some action may be needed in the future.

With no further business, Treasurer Hollenbach called for a motion to adjourn. Mr. Will Adams made a motion which was seconded by Mr. Bill Fallon. The meeting stands adjourned.

Respectfully submitted,



Ryan Barrow  
Secretary